

PROJECT DESCRIPTION

BF-7-4873

TITLE: Analysis of Performance Audit Requirements and Existing Capability Within the Department of Defense.

1. This project description is for work to be performed by the Institute for Defense Analyses (IDA) under contract numbers HQ0034-19-D-0001 as amended (see Paragraph 9f) for the Under Secretary of Defense (Comptroller).

2. **BACKGROUND:**

The audit function is expansive and complex within the US Government and the Department of Defense. Audits are intended to represent independent verifications of cost, performance or accountability for government policies, programs, or operations. The nature of a specific audit depends on the on the type and scope of the engagement. At least three strands of historical activity combine to outline the current scope of auditing within the DoD.

- Since 1778, Military inspector generals have been given the authority to audit a wide range of military activities. They have traditionally focused on performance issues of readiness, discipline and the effectiveness of military commanders, but their purview can include financial issues. The Army inspector general function dates to 1778, with Navy and Air Force functions beginning in the mid-20th Century. This function is further complicated by State Inspector Generals of 54 Adjutant Generals for the Army and Air Force National Guard in the U.S. states and its territories.
- A second vein of audit and inspections focused on primarily financial activities that began with the Budget and Accounting Act of 1921. The Act declared its purpose as, "To provide a national budget system and an independent audit of Government accounts..." This was the beginning of budgeting within the federal government and the audit function was to be inherent to the process. The Act created the current Office of Management and Budget along with the Government Accountability Office. The Federal Managers Financial Integrity Act of 1982 then required ongoing evaluations and reports of the adequacy of the systems of internal control accounting and administrative control of each executive agency. This vein of financial audit activity frames OSD Comptroller activities discussed later in this section.
- The congressional Inspector General Act of 1978 began the expansion of independent Inspector General Offices throughout the U.S. government with wide ranging powers to investigate and audit agencies for waste, fraud and abuse. A 1982 amendment added an Inspector General office to the Department of Defense that works in cooperation with the existing military inspector generals. Additional DoD-related Inspector Generals have been added as recently as 2010 with creation of offices associated with the Intelligence Community.

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The overall intent of the audit function is clear but, as shown above, its organization implementation is complex and diverse.

The DoD Comptroller is the principal advisor to the Secretary of Defense for budgetary and fiscal matters including financial management, accounting policy and systems, management control systems, budget formulation and execution, contract and audit administration, and general management improvement programs. The DoD comptroller is also the Chief Financial Officer of the agency per the 1990 CFO Act with responsibilities for oversight of all financial management activities relating to the programs and operations of the agency. The Government Management Reform Act of 1994 added the requirement that annual financial statements of executive agencies are to be audited prior to submission to OMB. The Federal Financial Management Improvement Act (FFMIA) greatly expanded the requirements to publish audited financial reports. The Office of the Under Secretary of Defense (Comptroller) carries out its mission by providing thoughtful, flexible policy and guidance to the Department regarding the management of financial activities, annual budgets, and supporting processes.

The Department of Defense Office of Inspector General (DoD OIG) is an independent and objective office that provides oversight of DoD programs and operations. The DoD OIG also informs the Secretary of Defense, Congress, and the American Taxpayer about problems, deficiencies, and corrective actions within DoD programs and operations. The DoD OIG also serves as the Lead Inspector General for specified Overseas Contingency Operations, coordinating oversight activities and reporting quarterly to Congress on each operation.

The Military Departments (MILDEP) each have an Assistant Secretary (Financial Management & Comptroller) that serves as the CFO for the military department and has many of the same responsibilities as the OSD Comptroller. The MILDEP CFOs produce auditable financial statements and are responsible for remediation of financial statement audit deficiencies. Their financial statements are audited by Independent Public Accounting (IPA) firms under contract to the DoD OIG. In addition, the MILDEP CFOs lead (or co-lead with the MILDEP Under Secretaries) the MILDEP Internal Control program based on FFMIA and OMB Circular A-123. The IPAs that audit the MILDEP financial statements assess the competence of the MILDEP Internal Control program, and may choose to rely on their work.

In addition, the MILDEPs each have a service audit agency that reports to the MILDEP Under Secretary. These agencies conduct performance audits, and are unique to the MILDEPs (in civilian agencies this function is performed by A-123 programs). The MILDEPs have different levels of perceived value from their service audit agencies, ranging from significant value added to no value added.

This project proposes to study the performance audit and internal control functions at DoD and within the MILDEPs for the purpose of evaluating benefits, costs and potential consolidation or elimination. It will compare the functions and processes to other external evaluating agencies to determine if there are best practices that can be applied to DoD performance audit processes and functions.

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3. OBJECTIVE:

The objective is to assess the performance audit and internal control assessment roles and compliance and monitoring functions of DoD audit and external evaluating entities, referred to as service organizations, used in the A-123 program. Determine how these organizations' performance audits and A-123-related compliance and monitoring functions and processes meet legislative requirements and identify where there are overlaps or duplication of these roles and functions. These results should be compared to and evaluated against the OMB performance and A-123 standards as well as the GAO-14-704G Federal Internal Control Standards. Then determine any limiting factors or constraints that may limit consolidation or elimination of performance audit functions at the DoD or Service level. Assess and analyze the potential of reducing or eliminating functions from the DoD and service audit agencies by 50-75 percent of their current resources to determine whether doing so would create significant gaps or deficiencies and provide an assessment of the cost savings versus the risk associated with any gaps.

4. STATEMENT OF WORK:

IDA review and catalogue the current audit and service organizations internal control assessment coverage of GAO, DoDIG, Service audit agencies, and external Service organizations used in the A-123 program. Assess any limiting factors and the impacts of consolidating duplicative functions at the DoD or Service level. IDA will then use this information to assess best practices, potential options and determine a ROM estimate of cost savings for each option. Specifically IDA will:

- a. Document the current roles and functions of GAO, DoDIG, Service audit agencies, and external evaluating entities, referred to as service organizations, used in the A-123 program.
- b. Determine any limiting factors; legal, regulatory, or policy that would impact consolidation of the performance audit and external evaluating entities, referred to as service organizations, used in the A-123 program in DoD.
- c. Identify key areas of overlapping functions between GAO, DoDIG, Service audit agencies, and external evaluating entities used in the A-123 program.
- d. Describe and document any unique functions performed by each of the organizations (but not by the others) and potential risks associated with eliminating the function.
- e. Assess the value and impacts of viable options for consolidation of 50% to 75% of their current resources.
- f. Provide a rough order of magnitude estimate of cost saving by consolidation of performance audit and external evaluating entities, referred to as service organizations, used in the A-123 program roles and functions.
- g. Construct an information graphic that contains a matrix identifying the organization element/agency, performance audit roles and functions, and potential overlap with other organizational elements.

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- h. Using the findings noted above, assess and identify gaps, if any that would result in the consolidation of 50% to 75% of the performance audit and external evaluating entities, referred to as service organizations, used in the A-123 program functions.
- i. Summarize findings, recommendations, and options at an executive level in an annotated brief.

The sponsor will provide to IDA or facilitate IDA's interaction with DoD and Service POCs of the following areas: Data on past audits (performed and completed) and external evaluating entities, referred to as service organizations, used in the A-123 program for evaluations. Access to the OSD-Comptroller audit division's key personnel, coordination with the DODIG key personnel on their roles and functions for audits, provide SMEs and POCs from the Service audit agencies and A-123 programs. A dedicated OUSD Comptroller project SME available to IDA staff for facilitating the gathering of data and coordination of engagements with other staff entities.

In light of continuing uncertainties regarding the COVID-19 crisis, the IDA research team will collaborate closely with the sponsor throughout the execution of this project, partnering to identify any schedule or other changes that may be needed due to limitations on data or facility access.

5. SCHEDULE AND DELIVERABLES:

IDA will provide the following deliverables in accomplishing this project:

- a. Project status reports and findings every two weeks;
- b. Kick-off meeting NLT 5 days from the start of task performance;
- c. Initial brief of findings and options 4 months from task initiation;
- d. Draft of findings and options when available based on ability to secure data and information; and
- e. A final comprehensive annotated brief of findings and options will be published 6 months from task initiation per the sponsor's decision on distribution and release of the final annotated brief.
- f. Post-publishing adjustments to the annotated brief, formal paperwork, and additional senior leader briefs.

Period of performance will be 7 months from project initiation.

6. CORE STATEMENT:

This research is consistent with IDA's mission in that it will support specific analytical requirements of the sponsor and will assist the sponsor with planning efforts. This project description requires extensive experience and specialized skills in DoD's audit processes and internal control functions. It also requires cost and resource analysis, and an in-depth knowledge of all aspects of IDA's on-going work supporting DoD agencies. IDA's support to DoD's programming, resourcing, and financial systems gives it a unique competence to undertake this work. As a Federally Funded Research and Development Center (FFRDC), IDA routinely works

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with competition sensitive information and is free of conflicts of interest. IDA will draw on its core competencies in resource and support analyses. Performance of this project will benefit from and contribute to the long-term continuity of IDA's research program.

7. FUNDING:

This project description authorizes an amount of \$775,000 for the performance of the statement of work within 7 months from initiation. The sponsoring office has reviewed the costs and (noting paragraph 9c below) has found them reasonable for the work to be performed. This project description should not be interpreted as approval to expend funds. The authorization to expend funds will be provided by Washington Headquarters Services (WHS) in the form of a contract modification or a Notice to Proceed.

8. TECHNICAL COGNIZANCE:

The OUSD Comptroller technical cognizance for this project description is assigned Mr. [REDACTED]@mail.mil. The IDA POC is Mr. [REDACTED]@ida.org.

9. SPECIFIC ADMINISTRATIVE INSTRUCTIONS:

a. If at any time during the course of performing this project, the sponsor or IDA identifies the need for substantial changes, a sponsor-approved amendment to this project description will be submitted to the IDA Contracting Officer's Representative, with a copy to the sponsor or his project officer, as appropriate.

b. This project will be conducted under Industrial Security Procedures specified in DoD 5220.22-M, "National Industrial Security Program Operating Manual," or as directed by the IDA Contracting Officer's Representative.

c. This is a project description award under the IDA Systems and Analyses Center (IDA/SAC) FFRDC contract awarded by DoD. Prior to contract award, a comprehensive review was conducted by DoD, and approved by the Under Secretary of Defense for Acquisition and Sustainment (OUSD A&S). The comprehensive review determined that IDA/SAC continues to provide sponsors with fully-informed, objective, conflict-free, state of the art work, and that IDA/SAC continues to be a cost-effective and efficient operation. The comprehensive review noted that IDA/SAC is the lowest-cost DoD FFRDC per staff-year of technical effort. The IDA/SAC FFRDC contract is subject to the Cost Accounting Standards (CAS) for government contracting and the Federal Acquisition Regulation (FAR), with resident DCAA auditors. IDA has a currently approved CAS disclosure statement and has certified that costs estimated for this effort are consistent with established practices and procedures.

d. The sponsor will have 30 calendar days in which to respond to IDA on any draft final deliverable, providing review comment, approval of security classification, and distribution instructions.

e. A general "need-to-know" is hereby established in connection with IDA performance of this project description. Access to classified documents and publications and security clearances

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necessary to complete the project will be obtained through the IDA Contracting Officer's Representative, unless otherwise instructed.

f. Contract number HQ0034-19-D-0001 contains all current terms and conditions and has a March 30, 2024 end-date for new funding. Funds can be spent past this date (as long as it is consistent with the period of performance identified in the contract amendment funding this project) as outlined in the scheduled and deliverables paragraph.

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Thomas W. Harker
Performing the Duties of the
Under Secretary of Defense
(Comptroller)/Chief Financial Officer

OCT 26 2020

Date: _____

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Norton A. Schwartz
President, Institute for Defense Analyses

Date: _____



Contracting Officer's Representative
OUSD(A&S)/RPDS/FFRDC Management

Date: 11/2/2020

HQ0034-19-D-0001



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

JAN 29 2021

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
COMMANDING GENERAL OF THE UNITED STATES ARMY
CORPS OF ENGINEERS
AUDITOR GENERAL OF THE ARMY
AUDITOR GENERAL OF THE NAVY
AUDITOR GENERAL OF THE AIR FORCE
INSPECTOR GENERAL OF THE ARMY
INSPECTOR GENERAL OF THE NAVY
INSPECTOR GENERAL OF THE AIR FORCE

SUBJECT: Support for Analysis of Performance Audit Requirements and Existing Capability
within the Department of Defense

We receive high value information from our annual financial statement audits. These audits are required by law and will continue. However, there is a concern that many entities may be conducting duplicative performance audits. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) has contracted the Institute for Defense Analyses (IDA) to document current roles and functions of the Government Accountability Office, DoD Office of Inspector General, Military Department audit agencies, and other Defense organizations conducting performance audits, inspections, attestations, and internal control reviews. The study will assess whether there is duplication of effort or possible audit gaps and determine whether we can generate savings by eliminating or decreasing spending on non-financial statement audit areas.

Please support this project by providing OUSD(C) and IDA representatives access to key personnel, to systems if necessary and authorized, and to data supporting the information under review. By February 10, 2021, please email your agency's point of contact (POC) information to Mr. [REDACTED]@mail.mil and Mr. [REDACTED]@mail.mil, the Comptroller leads for this project. Shortly after, IDA researchers will contact your POC to set up virtual meetings and specify information and data needed, including agency roles and functions, manpower, and workloads that support engagements, to include nonappropriated fund instrumentalities audits. Interviews will address the types and complexities of required engagements, measures to deconflict and avoid duplication, and related issues. IDA will need copies of guidance or policy documents establishing requirements for performance audits, inspections, attestations, and internal control programs; any annual plans that support these activities, compliance, and monitoring functions; and information on systems that track engagements, recommendations, and follow-ups.

cc:
Secretaries of the Military Departments
Under Secretary of Defense (Comptroller)



OSD000468-21/CMD000939-21